Meeting: Legal Services Board meeting

Date: 26 November 2024

Item: Paper (24) 55

Title: Finance Report to 31 October 2024

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Status: Official

Finance report to 31 October 2024

Purpose

1. This paper reports on the LSB's financial performance after seven months of the financial year 2024/25. We are reporting against revenue budgeted expenditure of £5.271m and capital budgeted expenditure of £724k for the full year as agreed by the Board and the Ministry of Justice (MoJ).

Recommendation

2. The Board is invited to note the Finance report (Annex 1).

3. **Expenditure for the year to date to 31 October is £2.801m** against the forecasted expenditure of £2.796m for the same period. This year-to-date overspend of £5k is an overspend of 0.2% against the Q2 Forecast.

4. The YTD underspend against Budget of £165k (5.6%) is not within the MoJ variance threshold (1%). This has been caused primarily by the large pay underspend from operating significantly below our budgeted headcount for the first 6 months and from having minimal research costs in the year to date, offset by significant external legal costs.

5. However, the Q2 Forecast took place in October where SLT approved a forecast expenditure figure for 2024/25 of £5.377m. This exercise has forecasted a full year overspend of £106k (2%) over the Budget.

6. The 2024/25 overspend is primarily due to an increase in the external legal budget to £335k due to the costs incurred on the Axiom Ince review and the potential future costs from the SSB review and CRL v LSB Part 8 claim.

7. This forecasted overspend is in excess of the 1% MoJ threshold and confirms the material risk of an overspend this financial year. This is both a financial and reputational risk to LSB as we have never overspent previously.

8. While the LSB can fund expenditure over its Budget from its cash balances, it requires the authority to spend from the MoJ to exceed the approved Budget. SLT agreed at the Q2 Forecast to make a request to MoJ for the additional spending budget. The specific amount will be finalised at the end of November to

meet the MoJ deadline, when we will have updates on the amounts needed, both in relation to external legal expenditure and from the office move in 2025.

9. There is a Budget Variation window (BV3) which closes in late November, which is the opportunity for the LSB to make the application to the MoJ for additional expenditure budget for this year. We would expect to hear a response from the MoJ on our application by January.

10. This additional funding requirements will be funded from LSB cash balances and then recovered through the LSB levy in future years, with any increase needing to be communicated to the Approved Regulators.

11. **Colleague costs £1.846m (£7k overspend to Q2 Forecast)** – the October payroll saw the 2024 pay award made to all eligible colleagues, backdated to 1 July. We have had six new starters added to the LSB payroll over the past two months with their LSB choices still feeding through to the payroll. We will essentially be at full complement by mid-November so there should be no more material pay variances in this financial year. The Q2 Forecast highlighted a likely increase to the accrued leave provision with the increases in headcount and pay this year which will be an additional cost.

12. **Legal costs £187k (£15k overspend to Q2 Forecast)** – the final expenditure on the Axiom Ince review with Carson McDowell can be confirmed at £227k (£73k in the prior year 23/24 and £154k in 24/25). The total Axiom Ince review spend is £231k including Counsel costs. The overspend in October comes from the first costs from CRL v LSB Part 8 claim coming through in October from Hogan Lovells (£12k) and so there is a timing difference to the Q2 Forecast.

13. **Research costs £59k (£16k underspend to Q2 Forecast)** – The legal services prices survey research had an estimated 42% completion at the end of October (£34k) so a small timing difference of £16k to the profile in the Q2 Forecast. £15k has been prioritised for Public Panel management in 2024/25. The Consumer Panel has awarded its service delivery research project to MEL Research at a cost of £40k and has gone out to tender for its Consumer Tracker survey.

14. **Office move** – We have received confirmation from our landlords, the TUC, that LSB will not be able to extend our lease at the Rookery beyond September 2025. This means that an office move in 2025 is a certainty and it is likely we will incur costs in the current year 2024/25, both capital and revenue. In the 2024/25 Capital budget we have included £650k for capitalising lease costs in the expectation that we will sign a new lease before 31 March 2025 and we have agreed to move the external procurement budget of £30k to this financial year 2024/25 which will be an additional cost not included in the Q2 Forecast.

15. **Spending Review** – we still await confirmation from MoJ regarding timings for the one-year Spending Review, following the Government budget on 30 October. Once this one-year Spending Review is finalised, it is anticipated that a three-year Spending Review will follow in Spring 2025.

16. All other P&L categories have a variance of £5k or less to the Forecast.

Value for money

17. The LSB Finance Regulations document underwent a substantive review ahead of the Audit and Risk Assurance committee meeting in October 2024.
18. The previous iteration was an example of over-engineering; being of excessive length and with multiple areas of overlap. The aim for the latest iteration of the document was to make it much more succinct by simplification and removing duplication. This was aided in part by using Microsoft Copilot, the AI tool, to redraft sections of the document.
19. This has resulted in a 37% reduction in the total wordcount from around 4,000 words to 2,500 words. The feedback from ARAC and colleagues is that the document is more accessible which will increase engagement, making the document more effective. The current version of the Finance Regulations is on the LSB website for reference https://legalservicesboard.org.uk/wp-content/uploads/2024/10/LSB-Finance-Regulations.pdf

Annexes

Annex 1: Comparison of actual to budgeted and forecasted expenditure

Risks and mitigations	
Financial:	The LSB must demonstrate effective management of its funds. This monthly report facilitates regular Board scrutiny of LSB's financial management and decision-making in relation to allocation of resources.
Legal:	N/A
Communications and engagement:	N/A.
Equality and diversity:	N/A
Resource:	N/A
Environmental:	N/A

Freedom of Information Act 2000 (FoI)		
Para ref	**FoI exemption and summary**	**Expires**
N/A	None	N/A